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Ratings On Compagnie de Financement Foncier's French Covered Bond Program Affirmed At 'AAA/A-1+'; Outlook Stable

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OVERVIEW

- We have reviewed Compagnie de Financement Foncier's French legislation-enabled covered bonds program.
- In our view, the available credit enhancement is commensurate with our ratings on the program and related series.
- We are therefore affirming our 'AAA/A-1+' ratings on the program and all related series of covered bonds issued under the program.
- The stable outlook means that adverse movements in our long-term issuer credit rating on BPCE or in our measure of the program's asset-liability mismatch risk would not automatically trigger a change in our ratings on the covered bonds.

LONDON (Standard & Poor's) June 24, 2014--Standard & Poor's Ratings Services today affirmed its 'AAA/A-1+' credit ratings on the French mortgage and public sector covered bond program and related series of obligations foncieres (OFs; a type of French legislation covered bonds) issued by Compagnie de Financement Foncier (CFiF) under its societe de credit foncier (SCF) program. We have affirmed our 'AAAp' ratings on the bonds where our ratings only address principal repayment. The outlook on our ratings on the program and the related series is stable.

Today's affirmations follow our credit review of the underlying assets in the

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cover pool and our cash flow analysis of assets and liabilities as of Dec. 31, 2013.

The covered bond issuer is a SCF; a special-purpose financial institution owned through Crédit Foncier de France by French bank group BPCE (A/Negative/A-1). Under our bank group methodology, we consider that the issuer (Compagnie de Financement Foncier) is a core entity to its parent, BPCE. We therefore apply a ratings uplift on the covered bonds from our long-term issuer credit rating (ICR) on BPCE under our asset-liability mismatch (ALMM) criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

Since our previous review, we consider that the covered bond program has not been exposed to new legal or operational risks that would affect our analysis or limit the maximum ratings achievable (see "French-Based Compagnie de Financement Foncier Covered Bonds Program Affirmed At 'AAA/A-1+'; Outlook Stable," published on Aug. 7, 2013). The French government amended the legal framework for SCF in May 2014, with tighter requirements for nominal overcollateralization, available liquidity, and ALMM risk. However, these changes did not affect the program, whose ratios were already within the new covenants.

The assets backing the program are residential mortgages, public sector assets, and substitute assets. The issuer sold a large portfolio of structured finance assets at the end of 2013, which in the past has accounted for up to 15% of the cover pool, in order to keep all of the cover bonds eligible for repo according to new European Central Bank rules. The residential mortgages are predominantly French, while the public sector assets are from various jurisdictions, but comprising mainly French assets. A significant portion of substitute assets have short-term exposure to BPCE, guaranteed by longer-term assets. The weight of this exposure has been decreasing over the past few quarters (€6.6 billion as of December 2013). The pool's credit quality remains in line with our previous analysis, although it is slightly improving on the mortgage side due to increased seasoning ('AAA' weighted-average foreclosure frequency for the residential loans of 16.1%). The pool's credit quality has deteriorated slightly on the public sector and substitute assets side due to our November 2013 downgrade of France and the removal of the structured finance assets ('AAA' scenario default rate of 15.4%). Our estimated recoveries based on a 'AAA' stress level are at 70.9% for the residential loans and 97.5% for principal on the remaining assets.

We performed a cash flow analysis on the transaction, applying our five-step approach for rating covered bonds.

We determine the maximum potential ratings uplift on a program by combining our assessment of its ALMM risk exposure and its ability to mitigate ALMM risk. As of December 2013, the ALMM risk in the covered bond program was, at 0%, in the "low" classification. The low ALMM risk is mainly due to the program's short-term exposure to BPCE--as we do not consider the longer-term assets which guarantee it--as well as a large very short-term exposure to the French sovereign, which we understand to be temporary and which results from the recent sale of the structured finance assets. We consider this program to be in Category 1 under our criteria, due to its ability to raise funds through both borrowing and asset sales. Under our criteria, the maximum achievable ratings uplift for a program in Category 1 with a "low" ALMM is seven notches. However, only five notches of uplift from our long-term ICR on BPCE are currently required to reach a 'AAA' rating. This results in two unused notches of uplift for this program.

The available credit enhancement as of Dec. 31, 2013 is 15.8%, with €84.9 billion assets and €73.3 billion privileged liabilities. This exceeds our 11.8% target credit enhancement, based on the December 2013 data that we view as commensurate with the maximum ratings uplift.

The replacement and remedy mechanisms in the transaction documents are in line with our current counterparty criteria. In our view, this adequately mitigates the program's exposure to counterparty risk. Our long-term and short-term ICR on BPCE can trigger several counterparty remedies, including bank account replacement, the funding of a credit line, and the mitigation of potential swap termination costs.

The cover pool's exposure to French assets has increased in recent quarters through the disposal of the international structured finance assets. We understand that new public sector assets in the cover pool will be French, given Credit Foncier de France's current origination policy and the type of assets refinanced for the rest of the group. However, given the current asset mix, we currently consider the cover pool to have low country risk exposure under our nonsovereign ratings criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). The covered bonds can therefore achieve ratings that are six notches above our rating on France (AA/Stable/ A-1+), and country risk does not constrain the maximum rating achievable for the covered bonds.

Taking all of the above factors into account, we are affirming our 'AAA/A-1+' ratings on the program and related series of covered bonds as our analysis and the application of our criteria indicate that the available credit enhancement is commensurate with our ratings on the program and related series. We rate 'AAAp' those covered bonds whose terms only allow us to address principal repayment.

The stable outlook means that adverse movements in our long-term ICR on BPCE, or in our ALMM risk measure, would not automatically result in a change to our ratings on the covered bonds. This is because, under our ALMM criteria, the program is eligible for seven notches of ratings uplift from our long-term ICR on BPCE, but only requires five notches to attain a 'AAA' rating.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including those set out in the criteria articles "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011, "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009, and "Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral," published on Sept. 30, 2003. However, please note that these criteria are under review (see "Advance Notice Of Proposed Criteria Change For Covered Bonds," published on April 29, 2014, "Methodology And Assumptions: Advance Notice Of Proposed Criteria Change: Ratings Above The Sovereign--Structured Finance," published on April 12, 2013, and "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs," published on Aug. 5, 2010).

As a result of this review, our future criteria applicable to rating covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the outstanding covered bonds issued by Compagnie de Financement Foncier. Until such time that we adopt new criteria, we will continue to rate and surveil these covered bonds using our existing criteria (see the list of related criteria below).

RELATED CRITERIA AND RESEARCH

Related Criteria

- Principles for Rating Debt Issues Based on Imputed Promises, Oct. 24, 2013 Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Methodology And Assumptions: Update To The Criteria For Rating French Residential Mortgage-Backed Securities, Jan. 6, 2009
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003
- Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003
- Criteria for Rating French Residential Mortgage-Backed Securities, July

16, 2003

Related Research

- Europe's Housing Market Recovery Is Not Yet On Solid Ground, April 30, 2014
- Advance Notice Of Proposed Criteria Change for Covered Bonds, April 29, 2014
- France 'AA/A-1+' Ratings Affirmed On Gradual Economic And Fiscal Adjustments; Outlook Stable, April 25, 2014
- Institutional Framework Assessments For International Local And Regional Governments, Jan. 13, 2014
- France Long-Term Ratings Lowered To 'AA' On Weak Economic Growth Prospects And Fiscal Policy Constraints; Outlook Stable, Nov. 8, 2013
- French-Based Compagnie de Financement Foncier Covered Bonds Program Affirmed At 'AAA/A-1+'; Outlook Stable, Aug. 7, 2013
- Methodology And Assumptions: Advance Notice Of Proposed Criteria Change: Ratings Above The Sovereign--Structured Finance, April 12, 2013
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010

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